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A new institutional approach to entrepreneurship and inequality in rural Russian villages: Survey findings from 1991 to 2006^{☆,☆☆}

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ABSTRACT

New Institutional Economics (NIE) and New Institutional Sociology (NIS) provide complementary paradigms with which to understand the relationship between formal institutional changes in a reform period and informal institutional structures with which household economies adapt to reform policies. Survey data gathered from rural Russian households from 1991 to 2006 provide an empirical test of hypotheses drawn from NIE and NIS. The most important finding is that in the absence of secure formal property rights informal institutional elements played the dominant role in entrepreneurship and inequality between households in the Russian countryside, but that as formal institutions became legitimized, and the overall economy stabilized, households that made use of these new institutional arrangements had significant advantages vis-à-vis other households. At the same time, regions which have provided opportunities for households to develop a “mixed economy” that combines household enterprise production, which relies to a significant degree on informal institutional elements, and wages and salaries (i.e., working for others), which is based on the legitimization of formal institutional arrangements, have produced substantially higher mean household incomes than have other regions.

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1. Introduction

The introduction of market reforms under the rubric of “shock therapy” in the early nineteen nineties created a natural experiment with which to view the relative impact of *formal* versus *informal* institutional mechanisms upon entrepreneurship and economic inequality among rural households in the emerging rural Russian market economy. The collapse of the command economy led to a dramatic rise in inequality and poverty among rural Russian households, mirroring the situation that occurred throughout the country. At the same time, however, the instability of the newly introduced formal institutional arrangements of market reform stimulated the growth of rural household entrepreneurship. During the early post-Soviet years, informal household institutional resources,

the “moral economy” (Netting, 1993; Scott, 1976), provided the cultural foundation to sustain household labor inputs and helping networks. This, in turn, supported a *survival strategy* that filled the gap in the agrarian economy that was left when federal government support for the large enterprises was substantially reduced.

Over time, however, the gradual legitimization of formal market reform institutions, including land rental agreements and loan contracts, along with the stabilization of the agrarian economy, has resulted in a reduction in inequality and poverty and the foundation for a more *sustainable mixed income strategy* in which households can generate income both from their own enterprises as well as from salary and wages obtained from working for others.

The same institutional changes that have created the opportunity for a mixed income strategy have resulted in the emergence of new entrepreneurial opportunities but also new sources of inequality between individual households and between different rural regions. The conceptual framework for understanding these changes is drawn from New Institutional Economics (NIE) and New Institutional Sociology (NIS). These complementary paradigms help us to understand the *process* in which informal and formal institutional elements have relatively greater or lesser influences on household business activity and rural stratification systems *at different points in time*. Identifying these time-specific effects of different institutional elements is crucial in understanding the changes that are taking place in post-communist rural economies as well as in emerging rural economies in general.

The empirical findings presented in this paper are drawn from surveys of households in rural Russia. Eleven surveys have been conducted from 1991 to 2009. The findings reported in this paper will focus on two cross-sectional surveys in two villages in 1991 and 1993 (shortly before and shortly after the collapse of the Soviet Union), four waves of panel surveys of households in three villages, conducted in 1995, 1997, 1999 and 2003, and two cross-sectional surveys, one in five regions (4 villages in each region) in 2001 and the other in nine regions (2 villages in each region) in 2006. The proportional stratified sampling strategy employed in all of the surveys reflects the relative numbers of different types of households – single persons, retired couples, working couples without children, working couples with children, working couples with children and other adults, single parent households, and a residual category of “other type” – found in rural Russian villages. The field researchers used face-to-face interviews to obtain detailed data on different types of income – salary and wages, household enterprise income and whether income was monetary (either in rubles or in-kind payments of grain or services) or non-monetary (i.e., what the household produced and consumed itself). Additional questions were asked of each household regarding the different ages of household members – to establish an index of household labor potential, household helping networks, and land rental. A full description of the methodology is found in earlier publications (O'Brien & Patsiorkovsky, 2006: 201–227) and on our Rural Russia blog/website (O'Brien and Patsiorkovsky, 2011).

2. The new institutional paradigms and understanding household entrepreneurship and inequality between households

The end of the Cold War and the emergence of rapidly growing economies in Asia, Eastern Europe and Latin America have posed a challenge to the simplistic models of both economists and sociologists. The world is much more complex than the traditional neo-classical economists or Durkheimian and neo-Marxian sociologists had suggested. In the search for a new paradigm, i.e., a new set of assumptions upon which to build theory and research to deal with the messy challenges to the traditional paradigms, a number of economists and sociologists have created the “new institutionalisms”; New Institutional Economics (NIE) (North, 1990) and New Institutional Sociology (NIS) (Brinton & Nee, 1998; Granovetter, 1973, 1985). Both NIE and NIS are connected to the traditions of their respective disciplines, but each contains some crucial new elements.

NIE, in contrast to the “Old Institutionalism”, retains the “rational individual” and the “methodological individualist” assumptions of neo-classical economics, but introduces as subjects for empirical investigation new institutional elements that affect the efficiency and certainty of contracts in the market place. This is especially relevant in the case of understanding economies that are attempting to transition from a pure command institutional structure to one that contains some significant market elements. Issues regarding corruption and the parties’ faith that contracts will be upheld by “third party enforcement” as well as the “transaction costs” associated with different institutional arrangements are an essential focus of the research agenda of NIE scholars.

NIS scholars retain the traditional sociological core belief in the importance of social relationships as explanatory variables, so that economic actions are assumed to be *embedded* in social relationships, but their research agenda also includes more “individualistic” and “rational choice” elements. Thus, scholars in this tradition focus on the way in which rational actors make decisions in significant degree according to the incentive structures provided by the socio-cultural environments in which they operate, as well as by creating informal social networks with which to navigate, and sometimes thwart, the formal institutional milieu.

Most important, the sociological approach to New Institutionalism assumes *a priori* that since informal institutional elements – culture, normative structures, etc. – exist side-by-side with formal institutional elements, the former can become a critical element in the transition from one formal institutional arrangement to another. Thus, for example, Szelyeni and Kostello (1998) note that during the communist era in Eastern Europe, the informal sector of the economy was a *compensatory mechanism* that provided an essential source of adjustment to the limitations of the formal command institutional arrangements. These same informal institutional structures play a critical role in the new market economies.

Taken together, the emphasis on formal institutional elements in the NIE paradigm and the adaptive features of

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